

The G8 Summit and Africa's Development
Testimony for the House Committee on International Relations' Subcommittee
on Africa, Global Human Rights and International Operations
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Gerald F. Flood
Counselor, International Policy Committee
United States Conference of Catholic Bishops

Mr. Chairman, Members of the Subcommittee,

I would like to thank the House Subcommittee on Africa, Global Human Rights and International Operations for the opportunity to testify here today. The U.S. Conference of Catholic Bishops (USCCB) is deeply engaged with the Catholic Church and people of Africa, and we welcome the special focus on Africa planned for the G8 Summit that begins in Scotland just six days from now. With bold action taken in a spirit of true solidarity, our President and the other leaders of the G8 nations can make the Summit a special occasion, one which ushers in a new period of hope and opportunity, justice and peace for the people of Africa.

Let me recall the words of the U.S. Catholic bishops in their 2001 Statement, *A Call to Solidarity with Africa*. I believe they have special relevance as we approach the Summit: "Our nation's history, its affluence, its economic and political power, and its leadership role in the world require us to accept an inescapable responsibility to help the peoples of Africa to live in peace and with dignity. From the earliest days of our nation, people of African descent contributed so much, playing major roles in the defense of democracy, and in the social, cultural, economic, and spiritual development of the United States. We also acknowledge the sad fact that the evil institution of slavery played a significant role in the development of our country. Citizens of African descent continue to play an integral role in defining American identity and in promoting the common good. For these reasons, the United States has a clear moral duty to adopt policies and support programs that encourage integral human development and long-term economic growth for the poorest countries, with particular attention to sub-Saharan Africa. This is not just a policy option; it is a moral obligation."

In my testimony today, I would like to focus particularly on the subject of debt relief for Africa. In this part of my testimony I will be focusing on a number of issues at a level of technical detail which the bishops would not address, and on which they therefore would not have a position. Thus I offer my testimony primarily as a former development agency official who has worked on debt and related issues with the USCCB, and before that with the World Bank, over quite a few years. I will also bring to the Subcommittee's attention the message delivered earlier this week to President Bush by Bishop William S. Skylstad, President of the Catholic bishops' conference. In his letter Bishop Skylstad expresses the hopes of the U.S. bishops for the success of the Summit and raises several issues with respect to major items on the agenda.

Before turning to recent developments on debt, I would like to express my thanks and appreciation to the Chairman of the Subcommittee, Rep. Chris Smith (R-NJ), for his leadership and long and faithful support for debt relief for poor countries. It was mainly through his efforts, and those of his former colleague, Rep. John LaFalce (D-PA), that the House incorporated into the Global Health Act of 2002 major new provisions authorizing and encouraging the Administration to strengthen the Heavily Indebted Poor Countries debt relief program.

The G8 Finance Ministers agree to major new debt cancellation for poor countries

Debt relief for poor countries has been a high priority for USCCB, and of our relief and development agency, Catholic Relief Services, for many years. Thus, we welcomed the recent announcement by the G8 Finance Ministers of their commitment to major new debt cancellation for poor countries. The proposal would provide qualifying countries with full cancellation of debts owed to the World Bank's International Development Association (IDA), the International Monetary Fund (IMF) and the African Development Fund (AFDF). It will be presented to these institutions for approval by September. Once approved, it would immediately benefit 18 countries and eventually as many as 20 additional countries. Together with earlier agreements to cancel most bilateral debts, including 100% of debts owed to the United States, the new agreement will provide the kind of deep debt relief for many poor countries that the Catholic Church has long advocated.

What benefits would eligible countries receive?

The 18 low-income countries that would receive debt cancellation immediately are those that have already met the conditions for full and irrevocable debt reduction available under the existing Heavily Indebted Poor Countries or "HIPC" debt relief program.¹ They will receive debt stock cancellation totaling about \$40 billion which is expected to translate into annual debt service savings totaling just over \$1 billion each year, on average, for the next ten years. The fourteen African countries, however, will benefit relatively much more than the four Latin American and Caribbean (LAC) countries.² This is because debt owed to the Inter-American Development Bank, the LAC countries' largest creditor, is not covered by the agreement. We hope that this omission will be rectified by the G8 soon. The agreement also does not cover the debt owed to a number of smaller regional development banks, but their share of the total debt burden of the HIPC countries is relatively small³.

¹ The countries are: Benin, Bolivia, Burkina Faso, Ethiopia, Guyana, Ghana, Honduras, Madagascar, Mali, Mauritania, Mozambique,, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia.

² Bolivia, Guyana, Honduras and Nicaragua

³ Most commercial creditors have not provided HIPC relief, but their debt amounts to less than 5% of HIPC country debt.

According to Steven Radelet of the Center for Global Development, the portion of annual country savings attributable to IDA and AfDF debt cancellation is estimated at \$650 million for the 18 countries. By the terms of the G8 agreement, however, these savings would be fully offset by a reduction in new disbursements from the two international financial institutions (IFIs). In other words, at least initially, there would be no net inflow of funds to the countries as a result of debt cancellation.

Many of the countries, however, should benefit from the additional donor contributions to be made to IDA and AfDF to make up for their lost debt service payments. These contributions would be allocated among all IDA and AfDF countries in accordance with the IFIs' normal performance criteria. Thus, how much of the additional IDA resources any of the eighteen countries will receive will depend on how they rate vis-a-vis other IDA countries in terms of country performance. Those with the strongest policies and institutions, as judged by the World Bank, will get more of the funds than others. The fact that the 18 have met the HIPC performance requirements suggests that their ratings should be relatively high. Those countries, however, that receive low ratings should expect to receive no additional resources.

Annual IMF debt service savings for the 18 countries is estimated at \$400 million, and the agreement does not call for any offsetting reduction in disbursements. Nevertheless the availability of these savings could influence future IMF decisions on the amount of new lending to the countries.

Will HIPC countries that have not met the requirements for full HIPC debt reduction be eligible for debt cancellation?

Cancellation of IFI debt is potentially available to all 38 HIPC countries. Thus an additional 20 countries would benefit once they fulfill the requirements for full HIPC debt reduction. According to the April 4, 2005 HIPC progress report of the World Bank and IMF, five of these⁴ are expected to meet these requirements in the last quarter of 2005 or the first quarter of 2006, and the remaining four⁵ before the end of 2006. Thus nine additional countries could receive IFI debt cancellation in 2005 or 2006. However, past experience suggests that substantial slippage is likely for some countries. As for the remaining 11 countries, many are affected by conflict and the timing of their eligibility for IFI debt cancellation is highly uncertain.⁶

⁴ Cameroon, Chad, The Gambia, Malawi and Sierra Leone

⁵ Democratic Republic of the Congo, Guinea, Guinea-Bissau and Sao Tome and Principe

⁶ According to the World Bank and IMF, Burundi and the Republic of Congo are expected to reach their Decision Point in 2005 and Cote D'Ivoire possibly in 2006, but they make no projections for Central African Republic, Comoros, Liberia, Myanmar, Somalia, Sudan and Togo; and Laos has not applied for HIPC relief.

Is there any possibility that countries not currently eligible for the HIPC program will be able to benefit from the debt cancellation agreement?

The G8 agreement is limited to HIPC countries and no new countries have entered the HIPC program since 2001. However, the Ministers' Communique raises the possibility of additional countries qualifying for the HIPC program and eventually for the debt cancellation provided by the new agreement. The Communique states: "We are also committed, on a fair burden sharing basis, to cover the costs of countries that may enter the HIPC process based on their end-2004 debt burdens." The Communique does not elaborate on this statement, and it is not clear what its practical implications will be. Presumably the debt burdens of the new entrants would have to meet the same threshold requirement that applied to the current 38 participants, the principal one being a debt-to-export level above 150%.

Based on available data, there are a substantial number of low-income countries that are likely to have end-2004 debt burdens above the HIPC threshold. However, HIPC debt relief is available only for countries that remain above the threshold after taking full advantage of bilateral debt relief available from the Paris Club of official creditors. Thus, it is not possible to know which new countries might qualify without further information, and in any event, it would likely be a number of years before any new entrants could reach the Completion Point required for IFI debt cancellation.

The HIPC thresholds for country eligibility were established in 1999, and it is possible that the IFI shareholders would reexamine them for new entrants. One reason for doing this would be to take into account the framework recently approved by the World Bank's Executive Directors for determining country eligibility for IDA grant financing.⁷ The relevance of this framework to HIPC eligibility is that it incorporates the concept of debt sustainability. It includes a matrix of debt burden indicators that take into account the Bank's country performance assessments as well as vulnerability to external shocks.

When the indicators were applied to individual countries, 42 were found to be at high risk of debt distress and, therefore, entitled to receive new IDA financing entirely in the form of grants. An additional five countries were at "moderate" risk of debt distress and eligible for 45% grant financing. The list is subject to refinement upon completion of more detailed country-by-country debt sustainability analyses, but until these are completed, the indicators will determine grant eligibility.

A breakdown of the 47 countries eligible for grant financing shows that it includes 29 of the 38 HIPCs plus 18 other countries. (See attached table.) This means that there are 18 non-HIPC countries that are rated as having a risk of debt distress that is equal to or greater than the HIPC countries. Because of the ten-year grace period on the repayment of IDA credits, the non-HIPCs will begin receiving the financial benefit of

⁷ See "Debt Sustainability and Financing Terms in IDA 14: Further Considerations on Issues and Options" International Development Association November 2004

grants (rather than loans) only ten years from now. In the meantime they will carry the full burden of existing debts.

One of the 18 non-HIPCs is Lesotho, a small land-locked African country. Upon learning of the G8 Ministers debt cancellation agreement, Lesotho Finance Minister Timothy Thahane told Reuters that one of the reasons Lesotho was not classified as a HIPC country was that it had never defaulted on its debt. “It is important,” he said, “that those who have paid their debts well, who run their mega-finances well, should be rewarded with debt forgiveness.” While perhaps not all of the 18 non-HIPCs have run their finances as well as Lesotho, considerations of consistency and fairness argue for using the World Bank’s new debt sustainability thresholds to determine the eligibility of new countries for HIPC debt relief and IFI debt cancellation.

What will the cost of the debt cancellation be for the United States?

An important statement in the G8 Ministers’ Communique is that donors would provide additional contributions to IDA and AfDF to offset “dollar for dollar” the foregone principal and interest payments of the debt cancelled. The Administration has not made public what its share of the required contributions will be, but it is possible to make an estimate with respect to the 18 countries that will be immediately entitled to debt cancellation. Assuming \$650 million represents the annual reduction in IDA and AfDF debt service payments from these countries, and assuming the U.S. contributes 20% of the costs (the traditional share of the U.S. in IDA replenishments⁸), the average annual cost to the U.S. over the next ten years would be \$130 million. This cost would increase as additional countries qualify for the cancellation.

Indications are that the Administration will not ask for new Congressional appropriations to finance the cost of IDA/AfDF debt cancellation, at least for several years. Apparently the intention is to finance the cost by early encashment of regular U.S. contributions to these institutions. This accelerated encashment will provide a financial benefit to IDA and AfDF, but how much it will amount to and for how long it will cover the U.S. share of costs cannot be determined without further information on the specifics of the arrangement. Presumably, however, the accelerated encashment should be sufficient to cover costs through FY08. This is because the Ministers’ Communique says, “Additional funds will be made available immediately to cover the full costs during the IDA-14 and AfDF-10 period.”

With respect to IMF costs, the Ministers’ Communique states that it should be financed from existing IMF resources “without undermining the Fund’s financing capacity.” While the details of the financing arrangement have not yet been disclosed, the principal source of funds is expected to be the corpus of the IMF fund established with

⁸ The U.S. share of the 14th IDA replenishment, for FY2006-08, will be smaller largely because of changes in the exchange rate between the US\$ and the SDR, the currency in which IDA contributions are denominated.

the net proceeds of the revaluation of IMF gold that took place in 1999.⁹ IMF staff have been instructed to assess the financial implications of the new proposal. The results of this review should provide the basis for a final decision by the IMF shareholders as to whether IMF's existing resources are sufficient to cover costs for 27 (or more) countries.

Apparently referring to some of the 11 HIPC countries that are still in the early stages of qualifying for HIPC relief, the Communique says, "in situations where other existing and projected debt relief obligations cannot be met from the use of existing IMF resources (e.g., Somalia, Liberia and Sudan), donors commit to provide the extra resources necessary." The three countries named are likely to be years away from qualifying for IFI debt cancellation, so that the near term cost implications of this statement may be minimal.

Will Nigeria benefit from the agreement?

The G8 Ministers "welcomed Nigeria's progress in economic reform...noted it move to IDA-only status, and encouraged them to continue to reform."¹⁰ It stated: "We are prepared to provide a fair and sustainable solution to Nigeria's debt problems in 2005 within the Paris Club. Todd Moss of the Center for Global Development commented as follows:

The change in IDA status is a small but critical step as it now allows the Paris Club to treat Nigeria like any other poor country and opens the door to a possible write-down of as much as two-thirds of the debts Nigeria owes to its bilateral creditors (albeit not the debts owed to the World Bank and IMF). Inclusion in the G8 announcement is an important signal that the creditors are serious about reaching a deal soon—perhaps even as soon as [the G8 Summit].

Debt Relief Is Part of a Broader Agenda

While the debt cancellation agreed by the G8 ministers is a major achievement, debt relief is not a panacea. Even if the debt of poor countries were reduced to zero, it will not end poverty. The problem is too complex and deep-seated for that. It must be addressed first and foremost by the countries themselves, with their governments and people working together on a variety of fronts for the common good. But their resources are not sufficient for them to do it alone. They need aid and just policies from the wealthier countries.

So let me turn to the letter sent this week to President Bush by Bishop William Skylstad, the Bishop of Spokane, Washington and President of the U.S. Catholic Bishops' Conference. I will try to highlight the main points. The special focus on Africa at the G8

⁹ The interest earned from investment of these proceeds is used to finance the cost of IMF debt relief under the existing HIPC program.

¹⁰ "IDA-only" status is granted to very low income countries. It means that the country is eligible for the highly concessionary IDA funds but not the (more expensive) ordinary resources of the World Bank.

Summit is welcomed and President Bush is urged to take bold action in four areas: global poverty, international trade, climate change and the trade in conventional arms.

The USCCB commends the President for the demonstrated commitment of his Administration to improving the well-being of the people of Africa and urges him to build on his strong record by working with his G8 colleagues to adopt new initiatives in support of African efforts to break the cycle of poverty and achieve integral human development. Africa will be a major beneficiary of new programs for combating HIV/AIDS, malaria and tuberculosis and the Millennium Challenge Account. These approaches have placed our country at the forefront of efforts to combat devastating disease and to design new approaches for more effective foreign aid.

Many African countries, however, will not benefit from the Global Health and Millennium Challenge initiatives, and apart from these programs, our overall development and humanitarian aid for poor countries has not increased in recent years. Some of these countries face enormous challenges, and in countries with weak governance and a lack of transparency and accountability, civil society organizations have an especially important role. But both governments and civil society need substantial external support to be able to address their problems effectively.

Bishop Skylstad suggests several areas that merit priority consideration for new initiatives. These include strengthening peacekeeping efforts in countries affected by conflict, as well as peace building and reconstruction in countries emerging from conflict. Also, a G8 commitment to intensify efforts to bring a quality education within the reach of all African children would make an enormous difference to the future of the people of Africa.

With respect to trade, the broader development agenda must include progress toward a more just international trading system. The recent G8 Finance Ministers' statement is encouraging in that it gives priority to the Doha development agenda and recognizes that a successful outcome will require substantial increases in market access and effective special and differential treatment for developing countries. Bishop Skylstad urges that the Summit also be an occasion for the G8 to take concrete steps toward eliminating trade-distorting agricultural subsidies and targeting farm support to small and medium-sized farmers.

Inclusion of global climate change on the Summit agenda is welcomed, as it is an issue of particular concern to the U.S. Catholic Bishops. Because of where they live and their limited resources, the poor will experience most directly the possible harmful effects of climate change and any measures to address it, including potential escalating energy costs, work displacement and health problems. This is true here in the United States as well as abroad. While there are many technical aspects that need to be considered in addressing global climate change, Bishop Skylstad lifts up our moral responsibility of stewardship. Our actions and decisions, particularly those regarding our use of energy resources, have a profound effect today and for future generations. While there may not be full scientific consensus or complete certainty as to the consequences of climate change, there seems to be

a sufficient scientific consensus that prudence would dictate taking preventive and mitigating action now.

Bishop Skylstad urges the President and his G8 colleagues to give priority to further research on the possible impact of climate change on the poor, and the need for programs to help the poor adapt and mitigate its worst effects. An agreement on even modest efforts could help send a signal that the time has come to move forward.

Finally, with respect to the arms trade, proliferation of conventional weapons has been a matter of concern to the U.S. bishops for many years. It was the subject of a major USCCB statement in 1995 that condemned the arms trade as “a serious moral disorder in today’s world.” One of the worst effects of the arms trade is that it can help fuel conflict in poor countries, and effective development in the midst of conflict is almost impossible. Bishop Skylstad commends the President on his Administration’s recent action with respect to the European Union’s arms embargo on China, and says that the Summit provides the United States with a unique opportunity to effect positive change by leading the effort to enact strong life-saving arms control measures.

Bishop Skylstad concludes by praying that President Bush’s meeting will be blessed by a spirit of collaboration that enables the G8 leaders to advance the universal common good by adopting concrete measures on global poverty, trade, climate change and the arms trade.

Thank you.